AGRICULTURAL OUTLOOK DIGEST

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A LOT OF FEED LEFT

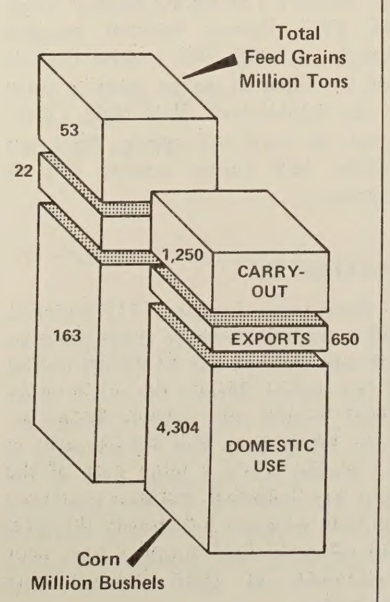
The feed grain carryover this fall will be well over last fall's low level, despite record use this season. But the possibility of a smaller 1972 grain crop, which could have an offsetting effect, also must be considered.

Last fall started out with nearly 240 million tons of corn, grain sorghum, oats, and barley as bumper crops overrode reduced carryovers. Domestic use of feed grains during the 1971/72 season has been running extremely heavy and is likely to reach 163 million tons, while feed grain exports will total a respectable 22 million tons. Subtracting these use levels from the big supply would leave 53 million tons next fall, well over the 33 million of a year before.

There will be more of all 4 feed grains than there were last fall, but the corn carryover will be especially large relative to the last few years.

The bulk of this estimated increase in carryover next fall may be offset, however. If average yields prevail, feed grain acreage reductions planned by farmers could result in a moderately smaller crop.

1971/72 PROJECTED FEED GRAIN USE



RUSSIAN SALE IN PROGRESS

The 1971 grain deal with Russia is helping maintain U. S. overseas feed sales. Feed grain exports from October 1971 through this April were the heaviest for the 7-month period in 4 years. Exports for all of 1971/72 are now estimated at 22 million tons, ahead of earlier estimates and somewhat larger than last season.

Shipments of corn and oats headed for Russia approached 2½ million tons and accounted for nearly a fifth of the season's feed grain exports through April. Additional feed grains, perhaps up to 1 million tons, will probably be shipped to Russia by the end of June.

Future Sales

Grain purchases by Russia will soon be shipped, but future sales are possible. The groundwork has already been laid. In mid-April, Secretary Butz went to Moscow where he met with Soviet General Secretary Brezhnev and Agriculture Minister Matskevich to discuss additional sales of U. S. grains.

No trade commitments were made at the mid-April talks but doors were left open for future trade discussions. If the Russians upgrade and expand their livestock industry, additional feedstuffs will be needed to reach the goal.

Reporting on his mission to Russia, Secretary Butz outlined the practical problems that will have to be resolved for further grain trade:

"The greatest issue appears to be terms of credit. U.S. export sales of grain are made by commercial trading firms, and it is not easy to substitute Government credit for a commercial sale on our side to a State trading monopoly on the other side.

"It might well be that we will be negotiating for annual sales of something in excess of $200 million worth of coarse grains and soybeans.

"We fully understand that trade on a long-term basis has to be two-way trade. In that connection, we discussed the current explorations taking place on development of the substantial natural gas and petroleum reserves in northern Russia which represent items the United States will need in 10 years."

JUNE HIGHLIGHTS

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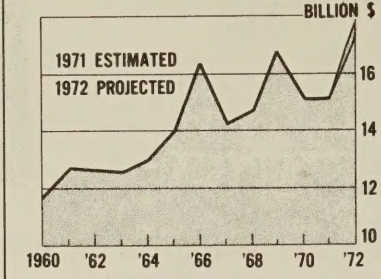
INCOMES UP

Farmers are earning more money this year. Farm prices are averaging higher despite large grain supplies. Continued strong consumer demand for red meat coupled with reduced pork production has boosted prices and receipts for livestock products and a tight supply-demand situation is supporting income for cotton and soybeans. A strongly rising economy boosting food spending will also help.

Crop receipts could climb $½-billion and livestock receipts about $2½-billion in 1972. Grain producers are aided by more program options. Government payments will rise about $1 billion. These developments will raise gross farm incomes approximately $4 billion. With production costs rising close to $2 billion, realized net farm income will likely be record high; around $2 billion over 1971's $15.7 billion.

REALIZED NET FARM INCOME



ECONOMIC UPSWING

Accelerated private investment, stronger sales, and expansive fiscal policies are making spring a little greener this year. Personal incomes are rising and so is industrial production. First quarter corporate profits were strong. But unemployment, the trade deficit, and prices remain problems despite the current growth in the gross national product.

Investment will be brisk for the remainder of this year. Inventories will probably rise to accommodate new and unfilled orders in manufacturing. Moreover, housing expenditures are likely to reach new highs. Investment in new plant and equipment may rise 12 percent this year as firms modernize to improve productivity.

Another expansive factor in the next 12-18 months will be an increase in Federal expenditures and transfer payments. Federal purchases of goods and services are scheduled to rise approximately 9½ percent this calendar year after barely edging upward in 1971 and declining in 1970.

These developments, coupled with fatter paychecks for consumers, point to a strong demand.

ANOTHER BIG WHEAT SUPPLY

Winter wheat production as of May 1 was indicated at 1.15 billion bushels, down 1 percent from last year. Assuming spring wheat yields are on trend, spring output will be down due to reduced acreage, and total 1972 wheat production may be around 1.5 billion bushels, down from this season's 1.64 billion. Prospects point to larger soft wheat crops, sharply reduced hard red spring and durum harvests, and little change in hard red winter wheat.

A 17-percent intended cutback in spring wheat acreage could pull down total 1972 wheat output. But with the bumper 1971 crop and sluggish exports this season, the biggest year-end supplies in recent years will be carried into 1972/73.

The huge 1972/73 supply would indicate some price pressures, and unless exports recover sharply from the current season's low level, there could be further increase in the summer 1973 carryover.

Domestic use of wheat this marketing year is rising to the highest level in over 2 decades, thanks to heavy use for feed. However, exports are running sharply lower.

Our exports are up against a mountain of wheat. World wheat production rose 10 percent in 1971; output was up for all major producers except the USSR and Mainland China. The larger wheat harvest has dropped world import demand about 5 percent from last season. Europe will buy less and accounts for most of the reduction. World wheat prices have dropped 10 to 20 cents a bushel as a result of larger supplies, lower import demand, and lower feed grain prices.

Big Carryover

U. S. wheat disappearance is expected to fall about 5 percent from last season's 1.53 billion bushels. Since the 1971 harvest boosted supplies sharply, around 200 million bushels will be added to stocks, pushing them to the highest level since 1963. Carryovers of hard red spring, hard red winter, and durum wheats will be heaviest.

Prices Hold Up

Farm prices for the 1971/72 season will average moderately above the loan rate and close to the $1.33 per bushel of last season, despite the much larger wheat supply and smaller disappearance. Prices were still strong early in the season when a large part of the crop was marketed. Farmers have used the loan program judiciously this year and privately held supplies have been maintained in good balance with demand.

WHEAT SUPPLY RISING

As of July 1	Average 1964-68	1969/70	1970/71 preliminary	1971/72 projected	1972/73 projected
	Mil. bu.	*Mil. bu.*	*Mil. bu.*	*Mil. bu.*	*Mil. bu.*
Beginning carryover	644	819	885	730	927
Production	1,402	1,460	1,370	1,640	1,500
Imports	1	3	1	1	1
Total supply	2,047	2,282	2,256	2,371	2,428

RETAIL FOOD PRICES

Grocery-store food prices in the first quarter of 1972 pushed 2 percent ahead of 1971's fourth quarter but dropped 0.2 percent from March to April as meat and poultry prices declined. But some further rise may be in store this summer, based on brisk demand, some tightening in pork supplies, and seasonal factors. By late summer and fall, prices will level off or may even edge downward.

For all of 1972, the all-food price index will likely be up 4 to 4½ percent, primarily reflecting the higher prices in the first quarter. Food at home will rise about 4 percent, while increases for food away from home likely will stay under last year's 5.2 percent.

Advances for prices of products derived from livestock will account for most of 1972's increase. Pork prices will be sharply higher than last year's extremely low levels, and beef prices will also average significantly higher. Poultry and eggs, on the other hand, were depressed last year and egg prices were down in the first quarter this year. Poultry and eggs will rise at a moderate pace. The advance for fish may be a little smaller than the 10-percent rise last year and only slightly less for dairy products.

Retail prices of crop products may rise less than half as much as they did in 1971. Most items in the index will moderate. Potato prices may rise slightly compared with the decline in 1971. The advance for fats and oils may be below last year's record gain. Fruit prices may rise into the summer months, but less than the rise last year, since remaining supplies of many fruit items appear ample.

April Shopping Bill Lower

The retail cost of a shopping cart full of foods produced on U. S. farms rose earlier this year, but then dropped.

The market basket rose to an annual rate of $1,288 for the first quarter, almost 3 percent over the fourth quarter 1971 average and almost 6 percent over a year earlier. Looking further back, the first quarter market basket cost was a fifth higher than in 1967 and a third more than 20 years ago.

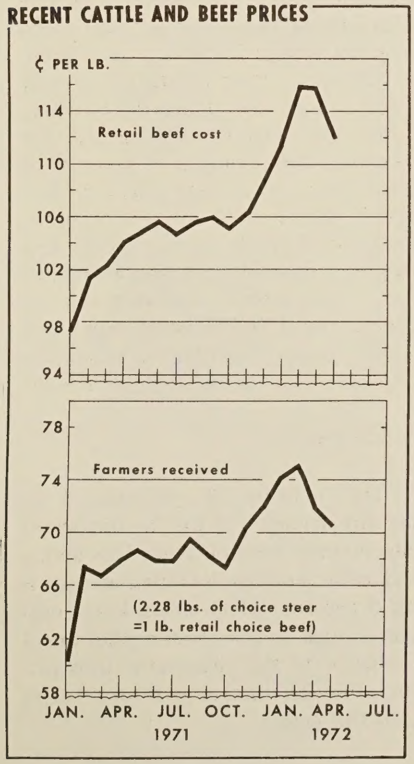
Nevertheless, looking more closely at the monthly figures, the market basket's annual rate rose in January and peaked at $1,297 in February. Then it declined, reaching $1,283 for April.

Gross returns to farmers (farm value of quantities equivalent to retail units) for market basket foods were $498 (annual rate) in April, down ½-percent from March. Compared with a year earlier, however, the farm value of market basket foods was up about 5½ percent. The first quarter farm value was up 22 percent from 1967 but up only 7 percent from 20 years ago.

Food Spending Up

For 1972, food spending may total 5½ percent higher than in 1971, when food shopping and eating out cost Americans $118.3 billion. Food spending hit $121.7 billion (seasonally adjusted annual rate) in January-March this year, up 1.9 percent from October-December 1971 and 4½ percent above a year ago.

RECENT CATTLE AND BEEF PRICES



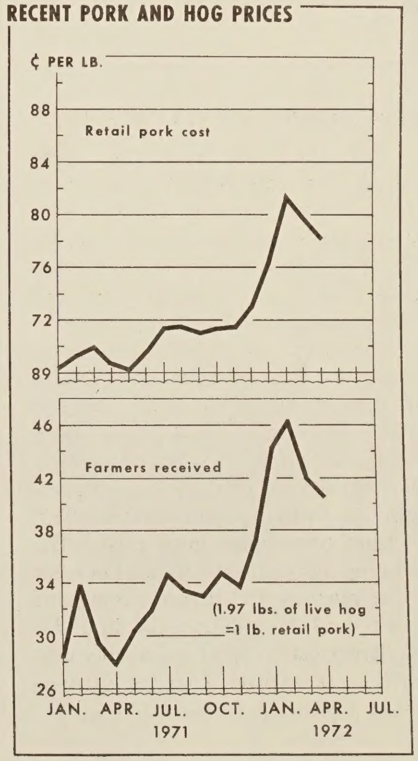
MEAT PRICE OUTLOOK

Retail beef prices this January-March averaged 7 percent above fourth-quarter 1971 as slightly larger per capita beef supplies were offset by increased demand and smaller supplies of pork. The marketing margin was up noticeably for the quarter, but it dropped in April along with the farmer's price, bringing some relief to retail beef prices. However, beef prices may not change significantly in coming months and will continue substantially above 1971.

First quarter retail pork prices advanced almost a tenth from the fourth quarter. After a sharp advance in January and February, farm prices declined in March and April. The farm-retail spread, however, kept rising through April as retail prices lagged the decrease at the farm level.

Rises at farm and retail are expected in the summer when supplies are seasonally low. Pork prices are likely to decline in the fall but remain well above the same period of 1971.

RECENT PORK AND HOG PRICES



COTTON INCENTIVE

This season's higher cotton prices are spurring larger plantings. Farmers plan to boost upland cotton acreage to 13.4 million acres, 10 percent above 1971 plantings. At the same time, fewer farms are going to grow cotton, judging by a 9-percent decline in farms enrolled in the 1972 program.

Upland cotton farmers received an average of 28½ cents per pound for their 1971 production, nearly 6 cents above the previous season. This is giving farmers greater incentive to increase plantings above allotment, the second year this has been permitted under the Agricultural Act of 1970. Nearly a fourth of the 1972 acreage is in excess of the allotment, compared with less than a fifth last year.

Cloth Demand Advances

Increasing orders for cotton cloth, particularly denim and corduroy, indicate strong demand for broadwoven cotton fabric during the next few months. Unfilled orders are the highest in more than 4 years, and cloth inventories are relatively small. The ratio of stocks to unfilled orders, normally a reliable short-term indicator of future cotton use, has trended downward in recent months to the lowest level since 1966.

Broadwoven fabrics such as denims, sheeting, and blends account for nearly four-fifths of cotton yarn consumption. Despite sharp losses to man-made fiber fabric blends during the 1960's cotton still maintains about two-thirds of this important market.

At the same time, more cotton yarn is being used in the fast-growing knit fabric market. Although cotton's share of this end use declined during the past decade, the growth in total fiber consumption led to 50-percent greater cotton yarn consumption. Knit fabrics take nine-tenths of cotton yarn; the rest goes into such products as tire cord, tufting yarns, cordage and twine, and narrow-woven goods.

Extra-Long Staple Cotton

In contrast with recent years, production and imports of extra-long staple cotton this season may moderately exceed combined mill use and exports. So this summer's carryover may rise sharply above last season's 62,500 bales. This would be the first year stocks have increased since 1966.

Disappearance is increasing this season. While mill use may remain close to last year's 98,000 bales, exports may total a little above the 10,000 bales shipped in 1971.

Larger acreage and higher yields boosted output to 95,900 running bales, two-thirds above the 1970 level. Harvested acreage jumped over a third to 101,000 acres, while yields increased a fourth to 466 pounds per acre. Based on March 1 intentions, producers plan to plant slightly less of this cotton this year.

FOREIGN COTTON GAP CLOSES

Despite ups and downs, cotton production in foreign non-communist countries has been catching up with consumption, so U. S. cotton exports have gradually fallen over the last dozen years. While farmers have grown more and more cotton, consumers in these countries have increased their use of man-made fibers, as we have, tending to slow expansion in cotton demand.

Foreign consumption was ahead of output by over 5 million bales in the late 1950's. But output gains since have averaged 0.7 million bales a year, while consumption has moved up nearly a half-million bales a year.

In 1970/71, however, lagging production caused the difference to increase to 4 million bales, and U. S. exports rose to 3-3/4 million.

The short crop in 1970 reduced the August 1971 carryover for the non-communist countries. But 1971/72 output, spurred on by sharply higher yields on slightly more acreage, increased about 4 million bales to an estimated 27.4 million. In comparison, consumption may vary little from last season's 27½ million bales, reflecting intensive competition from man-made fibers, tighter cotton supplies, and higher world prices.

Non-communist output and use are nearly in balance for the first time in recent history, and our exports are dropping about ½-million bales below the 3-3/4 million shipped during 1970/71.

BEEF OUTPUT TO KEEP RISING

More beef requires more feeder calves. And cattle producers have both the cow herd capacity and the price incentives to provide them during the next few years. Feeder and fed cattle prices are above average and feed prices are lower this year than last.

The beef cow herd continues to grow. Beef cow numbers in the annual January livestock inventory reached 38.7 million cows, up 3 percent from 1971, and heifers for beef-cow replacement were up 6 percent. These figures point to further expansion for 1972.

More cows mean more calves. The calf crop has increased about 2 percent a year recently and it rose 2.3 percent to a record 47 million head in 1971. The larger calf crop plus a smaller proportion saved each year for dairying means a growing feeder calf supply.

PROCESSED VEGETABLES PINCHED

Processed vegetable disappearance has been a little heavier than a year ago and prices are higher. Available data suggest canners' stocks are down moderately and the lowest since 1966.

Growers expect to plant 3 percent more acreage for 8 major processing items this season and contract for 9-percent larger tonnage of kraut. With these plans and average yields, a moderately larger total canned vegetable pack would result. In view of the low carryin expected, this rise shouldn't prove burdensome for producer or packer prices. Growers intend much larger acreage for frozen vegetables this year to replenish depleted stocks.

Potato Plans

The industry is planning a 3-percent acreage cut for the important late summer and fall crops. Late spring and early summer intended acreage is off 9 percent, which might lower output enough to give fresh market prices a chance to rise seasonally, thus getting the fall market off to a better start this year.